

Message Text

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SUBJ: UNDP - 18TH GOVERNING COUNCIL - ITEM 4C:

OVERHEAD COST PAYMENTS TO EXECUTING AGENCIES

1. SUMMARY: AFTER LENGTHY DEBATE IN BUDGETARY AND FINANCE COMMITTEE, THE ADMINISTRATION'S PROPOSAL TO INCREASE OVERHEAD PAYMENTS TO EXECUTING AGENCIES FROM 13 PERCENT TO 14 PERCENT IN 1974 AND 1975 WAS NOT REPEAT NOT APPROVED. INSTEAD, ADMINISTRATION ANNOUNCED IT WOULD CALCULATE ACTUAL COSTS FOR EXPOERTS INCURRED BY AGENCIES DURING 3 YEARS (1972-4) AND REIMBURSE ANY INCREASED COSTS OVER PRESENT STANDARD COST OF \$30,000 PER EXPOERT YEAR. THERE WAS ALMOST UNANIMOUS AGREEMENT THAT WHOLE QUESTION OF OVERHEAD COSTS SHOULD BE THOROUGHLY REVIEWED AND NEW ARRANGEMENT DECIDED UPON AT 19TH SESSION OF GOVERNING COUNCIL IN JANUARY 1975. CONSIDERABLE DISSATISFACTION WITH PRESENT SYSTEM WAS EXPRESSED. US, JAPAN AND USSR SUPPORTED INCREASE IN OVERHEAD REIMBURSEMENT RATE AS PROPOSED BY UNCLASSIFIED

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ADMINISTRATOR. A NUMBER OF OTHERS, BOTH DONORS AND DEVELOPING

COUNTRIES, SUPPORTED TEMPORARY INCREASE FOR 1974 PENDING THE REVIEW. END SUMMARY.

2. THIS QUESTION OF PAYMENT OF OVERHEAD COSTS TO EXECUTING AGENCIES WAS MOST HOTLY DEBATED ISSUE IN MEETINGS OF BUDGETARY AND FINANCE COMMITTEE. ADMINISTRATION'S RECOMMENDATIONS CONTAINED IN DP/65 ASKED AUTHORITY TO INCREASE THE RATE OF PAYMENT TO 14 PERCENT OF TOTAL PROJECT COSTS, AND TO CHANGE THE TERM USED FROM "OVERHEAD COSTS" TO "PROGRAM SUPPORT COSTS." THE DEPUTY ADMINISTRATOR (ADMINISTRATIVE) STATED THAT THE FINDINGS OF THE VARIOUS COST MEASUREMENT STUDIES CONDUCTED DURING PAST TWO YEARS SHOWED A RANGE OF OVERHEAD COSTS FROM 19 PERCENT IN SOME AGENCIES TO ABOUT 30 PERCENT IN OTHERS WITH AN AVERAGE OF 23 PERCENT. HE SAID AN INTERIM INCREASE TO 14 PERCENT HAD BEEN DISCUSSED WITH THE VARIOUS AGENCIES AND HAD THEIR AGREEMENT. IT WOULD COST THE UNDP ABOUT \$3 MILLION FOR INCREASED PAYMENTS EACH YEAR IN 1974 AND 1975.

3. DELEGATIONS SUPPORTING THE ADMINISTRATOR'S FIRST PROPOSAL WERE THE USSR, JAPAN AND AMERICA. TEN OTHER DELEGATIONS AGREED, WITH VARYING DEGREES OF RELUCTANCE, TO THE INCREASE BUT ONLY FOR 1974: BELGIUM, DENMARK, FINLAND, FRGGERMANY, GHANA, ITALY, NETHERLANDS, PHILIPPINES, SWITZERLAND AND THE UK. OPPOSING ANY INCREASE WERE: BRAZIL, CANADA, FRANCE, INDIA, JAMAICA, MOROCCO, NORWAY, SWEDEN, UPPER VOLTA AND YUGOSLAVIA. THE FAO DELEGATE, PRESUMABLY SPEAKING FOR THE OTHER OBSERVERS FROM THE SPECIALIZED AGENCIES, STRONGLY ENDORSED THE ADMINISTRATION'S PROPOSAL POINTING OUT THAT IT COSTS FAO 19 PERCENT OF TOTAL PROJECT COSTS TO EXECUTE UNDP PROJECTS, THAT THE FAO GOVERNING BODY HAD ALLOCATED \$1 MILLION FROM THE REGULAR BUDGET TO COVER THE UNREIMBURSED COSTS, BUT THAT THIS WAS NOT ENOUGH. HE ADDED THAT THE ADDITIONAL COSTS WERE MET BY SIMPLY NOT DOING SOME OTHER ACTIVITIES IN FAO'S PROGRAM OF WORK--IN EFFECT NOT CARRYING OUT ALL THE GOVERNING BODY'S APPROVED PROGRAM. OBSERVERS OF OTHER AGENCIES SPOKE VERY BRIEFLY DURING THE DEBATE, BUT IN THE CORRIDORS LET THEIR DISAPPOINTMENT BE KNOWN THAT THE ADMINISTRATOR HIMSELF WAS UNWILLING TO FIGHT FOR THEIR INTERESTS IN THE COMMITTEE.

4. THE NORWEGIAN DELEGATE WAS SELECTED TO TRY TO FIND A
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SOLUTION WHICH COULD BE AGREED BY CONSENSUS, BUT AFTER TWO DAYS HE FAILED, LARGELY AS A RESULT OF THE ADAMANT REFUSAL OF THE INDIAN AND BRAZILIAN DELEGATIONS TO AGREE TO ANY INCREASE AT ALL.

5. THE UK DELEGATE HELPED TO CLARIFY THE ACTUAL SITUATION BY EXPLAINING THAT THE OVERHEAD PAYMENTS WERE CALCULATED ON A STANDARD COST RATE FOR EXPERTS AND, THEREFORE, AS THE ACTUAL

COSTS OF EXPERTS ROSE ABOVE THE STANDARD COST FIGURE, AN AGENCY'S RECEIPTS FROM THE UNDP ACTUALLY REPRESENTED A LOWER PERCENTAGE OF ITS REAL PROJECT COSTS. ANOTHER WAY TO REIMBURSE THE AGENCIES FOR THEIR INCREASED COSTS WOULD BE TO RAISE THE STANDARD COST FIGURE.

6. WHEN IT BECAME CLEAR THAT NO COMPROMISE WOULD BE REACHED BY THE MEMBERS OF THE COMMITTEE, THE ADMINISTRATION DECIDED THAT IT ALREADY HAD THE AUTHORITY TO INCREASE THE PAYMENTS TO THE AGENCIES BY BASING THE REIMBURSEMENT ON THE ACTUAL INCREASES IN EXPERT COSTS AND SO NOT RAISING THE PERCENTAGE RATE WHICH IS CONTROLLED BY THE GOVERNING COUNCIL. THE DEPUTY ADMINISTRATOR ANNOUNCED THAT HE WAS PREPARED TO RECALCULATE THE OVERHEAD ENTITLEMENTS FOR THE AGENCIES OVER THE THREE YEARS (1972-74) ON THE BASIS OF TOTAL ACTUAL COSTS OF EXPERTS RATHER THAN THE PRESENT FIGURE OF \$30,000 STANDARD COST PER EXPERT. MOST AGENCIES WOULD RECEIVE INCREASES UNDER THIS FORMULA BUT THE OTHERS WOULD NOT BE ADJUSTED DOWNWARD. SMALL AGENCIES COVERED BY THE FLEXIBILITY ARRANGEMENT WOULD NOT BE AFFECTED.

7. ON THE BASIS OF THIS ANNOUNCEMENT THE COMMITTEE AGREED TO PROLONG THE PRESENT ARRANGEMENT FOR 1974 AND TO POSTPONE UNTIL THE 19TH SESSION A DECISION ON REIMBURSEMENT BY UNDP OF EXTRA EXPENSES INCURRED IN 1974. THE COMMITTEE ALSO DECIDED TO CONSIDER A NEW SYSTEM FOR REIMBURSEMENT OF OVERHEAD COSTS ON THE BASIS OF FULL DOCUMENTATION AND A RECOMMENDATION TO BE PREPARED BY THE ADMINISTRATOR.

8. THE QUESTION OF CHANGING THE NAME OF THESE COSTS FROM OVERHEAD COSTS TO PROGRAM SUPPORT COSTS WAS POSTPONED UNTIL THE FULL REVIEW WAS HELD AT THE 19TH SESSION.
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